

The Commonwealth of Massachusetts DEPARTMENT OF PUBLIC UTILITIES

D.T.E./D.P.U. 05-53-A

October 1, 2008

Petition of Fitchburg Gas and Electric Light Company d/b/a Unitil for approval by the Department of Public Utilities of its Revised 2005 through 2009 Gas Energy Efficiency Plan.

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FOR: FITCHBURG GAS AND ELECTRIC LIGHT COMPANY,

D/B/A UNITIL

Petitioner

I. <u>INTRODUCTION</u>

On August 10, 2005, Fitchburg Gas and Electric Light Company d/b/a Unitil ("Unitil" or "Company") filed with the Department of Public Utilities ("Department") its gas efficiency plan for the period May 1, 2005 through April 30, 2009 ("Plan"). Unitil filed its Plan pursuant to Order Promulgating Final Guidelines to Evaluate and Approve Energy Efficiency Programs, D.T.E. 98-100 (2000) ("Energy Efficiency Guidelines"). On that same date, a settlement agreement ("Settlement") between the Department of Energy Resources ("DOER") and several low-income intervenors was filed with the Department. On November 16, 2005 the Department approved the Plan and Settlement. Fitchburg Gas and Electric Light Company, D.T.E. 05-53 (2005).

In a July 25, 2008 Letter Order, the Department directed all Massachusetts energy efficiency Program Administrators² to submit proposals to increase spending for residential heating programs for the 2008 winter season, stating that "there is an urgent need to expand funding for existing residential gas and electric energy efficiency programs in order to respond to the potential for very high heating costs in the coming months." Request to Increase

Funding for Residential Energy Efficiency Programs, Letter Order (July 25, 2008) ("Letter

On September 29, 2005 and October 20, 2005, the Department granted petitions to intervene from DOER and the Low-Income Energy Affordability Network ("LEAN").

Program Administrators are those entities that administer energy efficiency programs, including distribution companies and municipal aggregators. Energy Efficiency Guidelines § 2.

Order").³ The Company submitted its proposal to increase funding for residential energy efficiency programs on August 15, 2008 ("Revised Plan").

The Department requested comments on all Program Administrators' Revised Plans by August 25, 2008. Request to Increase Funding for Residential Energy Efficiency Programs, Hearing Officer Memorandum (August 1, 2008). Comments were received from Associated Industries of Massachusetts ("AIM"), the Attorney General of the Commonwealth of Massachusetts ("Attorney General"), the Conservation Law Foundation ("CLF"), DOER, Environment Northeast ("ENE"), Low-Income Energy Affordability Network("LEAN"), and Wal-Mart Stores East, L.P. ("Wal-Mart"). The Department requested reply comments on all Program Administrators' Revised Plans by September 5, 2008. Request to Increase Funding for Residential Energy Efficiency Programs, Hearing Officer Memorandum (August 27, 2008). Reply comments were received from Unitil, ENE, LEAN, and The Energy Consortium ("TEC"). The evidentiary record includes two responses to information requests.⁴

The Letter Order, which was sent to Massachusetts electric and gas energy efficiency Program Administrators, was issued in response to a request made to the Department by DOER in a letter dated July 16, 2008.

On its own motion, the Department moves into the evidentiary record of this proceeding the Company's responses to Information Requests DPU 1-1 and DPU 1-2.

II. 2008 REVISED ENERGY EFFICIENCY PLAN

A. Introduction

In the Department's July 25, 2008 Letter Order, we directed Unitil to submit certain information with its Revised Plan for increased spending on programs that target residential heating end uses. Such information included: (1) identification of the energy efficiency programs that are targeted at residential heating end uses; (2) the additional dollars the Company projects it can spend in a cost-effective manner; (3) the constraints that limit the additional dollars the Company projects it could spend cost-effectively; (4) the additional number of residential customers that will be served; (5) the additional therm savings that will be expected to be achieved; (6) the dollar savings on monthly bills that additional participants will be expected to realize; (7) the effect on the cost-effectiveness of the applicable programs; and (8) the Company's proposed mechanism for recovery of incremental costs. Letter Order at 2.

B. Revised Budget

1. Budget Increases

The Company proposed to increase its total budget by \$52,000 (Revised Plan, Att. B (revised)). The Company proposes to apply the increased budget to the following programs:

(1) Residential High Efficiency Heating Rebate; (2) Residential High Efficiency Water Heating Rebate; (3) ENERGY STAR thermostat rebate; (4) ENERGY STAR homes; (5) ENERGY

STAR windows; (6) residential weatherization; and (7) residential low-income (Exh. DPU 1-2).

2. Funding Constraints

The Company states that additional expenditures on cost-effective savings are constrained by the program delivery infrastructure. The Company indicates that the only limitation affecting the spending of additional dollars on energy efficiency measures is the availability of its low-income program vendor to complete the work (Unitil Reply Comments at 2).

3. Additional Customers

The Company proposed to increase its target number of participants by 71 (Revised Plan, Att. D).

4. Annual Therm Savings

The Company projects an increase in its target lifetime million British thermal units ("MMBtu") savings by 1,874 MMBtu (Exh. DPU 1-2).

5. Customer Savings

The Company estimates that a participating customer will save between \$2.18 and \$272.96 per month (Unitil Reply Comments at 2).

6. Cost-Effectiveness

The Company asserts the increase in spending will not have a significantly adverse effect on cost-effectiveness (Revised Plan at 2).

7. Cost Recovery

The Company proposes to recover the additional costs through the applicable local distribution adjustment factor ("LDAF") (Revised Plan at 2).

III. COMMENTS

A. Introduction

The majority of comments received were of a general nature, applicable to most or all of the Program Administrators' revised gas and electric plans. In addition, certain comments were specific to an individual Program Administrator's revised plan. The general and company-specific comments are each summarized below.

B. General Comments

1. Program Budgets

AIM argues that the Department's request for increased funding for energy efficiency programs is an overreaction to a temporary rise in energy prices and, accordingly, that any increased spending should be delayed until 2009 (AIM Comments at 1-2). While the Attorney General does not challenge the need for increased energy efficiency funding to reduce low-income and residential customer heating bills this winter, she argues that the proposals fail to provide the detailed information required by the Department and, therefore, raise several substantive and procedural issues (Attorney General Comments at 3). For example, the Attorney General asserts that most proposals do not provide detailed budget increases, as required by the Department (id. at 4). Without such information, the Attorney General argues

that the Department cannot ascertain where the additional funds will be spent, the extent that customers will benefit, or whether all proposed programs will be cost-effective (id. at 7).

DOER states that electric Program Administrators have proposed Revised Plans with significant increases of at least 30 percent over 2008 budgets for residential and low-income programs. However, DOER states that gas energy efficiency proposals vary widely (DOER Comments at 3). DOER argues that all gas proposals should increase budgets at least as much as electric proposals and that all cost-effective residential program budgets should be increased (DOER Comments at 3).

LEAN agrees that an immediate increase in energy efficiency program budgets is necessary. Furthermore, LEAN contends that the revised plans must be approved as soon as possible, otherwise the Program Administrators will be unable implement the programs for this winter (LEAN Comments at 1-2). TEC notes that the cost to advance known projects will be minimal and will not diminish program cost-effectiveness and, therefore, recommends that Program Administrators advance current heating contracts by paying contractors overtime or a performance incentive to complete projects as soon as possible (TEC Reply Comments at 2).

ENE states that, by its calculations, there is a large spread in proposed budget increases among the Program Administrators (ENE Comments at 4). So that the revised plans are directly comparable, ENE recommends that the Department or DOER require the Program Administrators to submit identical spreadsheets that include proposed spending level by customer class on a per customer and per unit of energy sold basis (id. at 3-4). ENE also

states that, in some revised plans, budgets appear to be reduced and that the Department should not approve any reductions without good reason (id. at 4).

2. Funding Mechanisms

The Attorney General contends that many of the electric proposals contain insufficient detail about the sources of additional funding. The Attorney General states that, in order for the Department to approve funding mechanisms that collect additional money from customers, the Department must consider the effect on residential and commercial customers and the availability of private or public funds (Attorney General Comments at 13, citing St. 2008 c. 169, §11). In addition, the Attorney General argues that any new reconciling rate mechanism designed to recover incremental energy efficiency program costs must be subject to a hearing before the Department under G.L. c. 164, § 94 to establish just and reasonable rates (id. at 14-15, citing Consumers Organization For Fair Energy Equity, Inc. v. D.P.U., 368 Mass. 599, 606 (1975)). Wal-Mart also asserts that any request to approve a funding mechanism for incremental energy efficiency expenditures requires a thorough investigation which includes discovery and an evidentiary hearing (Wal-Mart Comments at 2-3). CLF suggests that any new energy efficiency tariffs or reconciling mechanisms should be considered by the Department in a separate proceeding (CLF Comments at 1-2).

DOER states that proposals to recover lost based revenues through various mechanisms is a departure from current practice that must be thoroughly reviewed by the Department (DOER Comments at 3). Finally, LEAN states that significant consumer savings can only

occur if energy efficiency measures are fully funded and that funding is allowed to rollover from year to year (LEAN Comments at 2).

3. Scope of Proposed Energy Efficiency Program Programs

The Attorney General states that the revised plans go beyond the scope of the Department's directives. First, the Attorney General states that some revised plans include spending increases for programs that are not designed to reduce heating costs for residential customers (Attorney General Comments at 4-5).⁵ In addition, the Attorney General states that many proposals include new programs and program changes (id. at 11). The Attorney General argues that such program changes and new programs require more investigation than is allowed for in this expedited review (id. at 12). Accordingly, the Attorney General recommends that the Department deny any request to implement new programs or changes to existing programs (id.). Alternatively, the Attorney General suggests that Program Administrators could implement new pilot programs and other initiatives without Department approval if shareholders agree to fund the programs (id.).

For example, the Attorney General states that nearly all gas companies and some electric companies propose to change the income eligibility level from 60 percent to 80 percent of the Commonwealth's median income for low-income energy efficiency programs (Attorney General Comments at 11). The Attorney General argues that the low-income eligibility issue is currently the subject of Investigation into Issues Affecting Low-Income Customers, D.P.U. 08-4, and, therefore, should not be considered by the Department in the instant proceeding (id. at 11-12). In contrast, LEAN contends that there is no valid reason to deny proposals that make energy efficiency measures more affordable to households with incomes between 60 and 80 percent of the median income (LEAN Reply Comments at 2). In its Revised Plan, Unitil did not propose to change the income eligibility level for its low-income gas programs.

Unlike the Attorney General, LEAN supports increased budgets for energy efficiency measures that are not directly related to heating (LEAN Reply Comments at 2). LEAN argues that any measure that reduces utility bills will help this winter (LEAN Comments at 2).

DOER states that, despite the Department's focus on approving only residential heating programs, it should consider allowing "stop-gap" proposals that address large unmet demand in cost-effective commercial and industrial ("C&I") programs (DOER Comments at 3).

However, AIM contends that funding for C&I programs should not be increased this winter because the lead time to implement these programs is long (AIM Comments at 3). Rather, AIM suggests that C&I programs should be considered for budget increases in 2009 (id.).

Finally, CLF agrees that proposals to increase funding for C&I programs should be deferred to proceedings on the 2009 energy efficiency plans (CLF Comments at 1).

4. Performance Incentives

The Attorney General suggests the Program Administrators forgo shareholder incentives to help customers this winter (Attorney General Comments at 11). DOER states that increased spending levels may necessitate adjustments to shareholder incentives to avoid inappropriate gains by Program Administrators (DOER Comments at 3).

C. Company-Specific Comments

ENE supports Unitil's spending increases, however it is concerned that low-income programs are not expanding (ENE Comments at 8). ENE recommends that Unitil work with community agencies in order to achieve a 50 percent investment increase in low-income programs by the end of the year (id. at 8).

In response to the Attorney General's generic comments regarding insufficient detail in the revised plans, Unitil provided additional information in its reply comments (Unitil Reply Comments at 1-3). Unitil provided the specific value of additional dollars that will be spent on non-low-income and low-income programs (id. at 1). Unitil also provided estimated therm and dollar savings for gas customers per month (id. at 2).

IV. ANALYSIS AND FINDINGS

A. <u>Introduction</u>

In order for the increased spending to provide benefits to customers during the 2008 winter season, it is necessary for the Company to ramp up implementation of cost-effective energy efficiency programs as soon as possible. Nevertheless, the Department still has the obligation to apply its review criteria in the Energy Efficiency Guidelines, which require that the Company's energy efficiency programs be cost-effective. Energy Efficiency Guidelines §§ 4.2.1(a), 6.2.

An energy efficiency program is deemed cost-effective if its benefits are equal to or greater than its costs, as expressed in present value terms. The Department evaluates program cost-effectiveness using the Total Resource Cost ("TRC") test, which considers the costs and benefits to both the energy system and the participating customers. <u>Id.</u> at § 3. Energy system costs are comprised of two components: (1) Program Administrator costs, including costs to develop, plan, administer, implement, market, monitor and evaluate programs; and (2) a performance-based shareholder incentive. <u>Id.</u> at § 3.2.2. Program participant costs include all

costs incurred by customers as a result of their participation in the programs, net of company rebates and other incentives. Id. at § 3.2.3.

B. Revised Plan

1. Adequacy of Information Provided

Although not specific to Unitil's Revised Plan for its gas energy efficiency programs, the Attorney General raised concerns that nearly every proposal failed to provide all the information requested by the Department (Attorney General Comments at 6-7). After the Attorney General's comments were filed, the Company submitted responses to information requests and additional information in its reply comments to supplement its original filing (see Revised Plan; Exh. DPU 1-1, 1-2; Unitil Reply Comments at 1-3)⁶. In total, we find that the Company has provided sufficient information to enable the Department to review and assess whether the Company's energy efficiency programs in the Revised Plan are cost-effective (see Revised Plan; Exh. DPU 1-1, 1-2; Unitil Reply Comments at 1-3).

For example, ENE correctly noted that, in its initial Revised Plan filing, Unitil did not propose to change the budget for low-income programs (ENE Comments at 8) However, Unitil submitted revised information to indicate that was indeed proposing to increase its low-income budget by \$27,000, or a 30 percent increase over its \$90,000 budget (Unitil Reply Comments at 1; Exh. DPU 1-2).

2. Cost-Effectiveness

As discussed in Section II, above the Company proposes to increase spending on the following programs: (1) residential high efficiency heating rebate; (2) residential high efficiency water heating rebate; (3) ENERGY STAR thermostat rebate; (4) ENERGY STAR homes; (5) ENERGY STAR windows; (6) residential weatherization; and (7) residential low-income (Exh. DPU 1-2). The Company did not update its benefit/cost analysis, stating that an increase in spending will not significantly change the benefit/cost ratios (Revised Plan at 2).

The Company focuses its additional spending on customer rebates (Revised Plan, Att. 1 (revised)). Under the TRC test, costs incurred by both Program Administrators and program participants are included in the cost-effectiveness analysis. Therefore, increases in the level of customer rebates paid by a Program Administrator do not affect a program's total cost-effectiveness because the additional costs incurred by the Program Administrator are fully offset by the reduced costs incurred by program participants. Furthermore, total therm savings would increase because of the increase in the number of participants. Therefore, with the budget increases included in the Revised Plan, the Department finds that the benefit/cost ratios will remain the same or increase as compared to the existing ratios.

3. Cost Recovery

The Company has asked to recover its costs during the 2008 heating season, including recovery of incentives and lost margins, for all energy efficiency programs through the conservation charge component of the LDAF (Revised Plan at 2). The Department finds this

request to be reasonable and consistent with Department practice (D.T.E. 05-53, at 5-6, Settlement Agreement).

V. ORDER

Accordingly, after due notice, opportunity for comment, and consideration, it is ORDERED: That the gas energy efficiency Revised Plan submitted by Unitil is APPROVED; and it is

<u>FURTHER ORDERED</u>: That Unitil shall comply with all other directives contained in this Order.

<u>/s/</u>
Paul J. Hibbard, Chairman
/s/
W. Robert Keating, Commissioner
<u>.</u>
/s/
Tim Woolf, Commissioner
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By Order of the Department,

Appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part. Such petition for appeal shall be filed with the Secretary of the Commission within 20 days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of 20 days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. Sec. 5, Chapter 25, G.L. Ter. Ed., as most recently amended by Chapter 485 of the Acts of 1971.